



Holland N. McTyeire, V  
Direct (502) 587-3672 Fax (502) 540-2223 E-mail hnm@gdm.com

*VIA HAND DELIVERY*

September 23, 2005

Beth O'Donnell  
Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
Frankfort, Kentucky 40602-0615

RECEIVED

SEP 23 2005

PUBLIC SERVICE  
COMMISSION

Re: In the Matter of: Proposed Adjustment Of The Wholesale Water Service Rates  
Of Hopkinsville Water Environment Authority, Case No. 2005-00174

Dear Ms. O'Donnell:

As requested by the Commission Staff's September 9, 2005 First Information Request, enclosed herewith please find for filing with the Commission nine binders containing the original and eight (8) copies of the Responses Of Hopkinsville Water Environment Authority To The Commission Staff's September 9, 2005 First Information Request and the Christian County Water District's September 9, 2005 Data Requests in the above styled matter.

Please do not hesitate to contact the undersigned should you have any questions concerning this filing.

Sincerely,

Holland N. McTyeire, V

HNM/jh

Enclosures

cc: Gerald E. Wuetcher  
Lennis F. Hale  
Andrew C. Self  
Carl W. Breeding

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**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

IN THE MATTER OF:

PROPOSED ADJUSTMENT OF THE WHOLESALE  
WATER SERVICE RATES OF HOPKINSVILLE  
WATER ENVIRONMENT AUTHORITY

} CASE NO. 2005-00174

**RESPONSE OF HOPKINSVILLE WATER ENVIRONMENT AUTHORITY  
TO THE COMMISSION STAFF'S  
SEPTEMBER 9, 2005 FIRST INFORMATION REQUEST**

Hopkinsville Water Environment Authority ("HWEA"), through counsel, hereby submits its Response pursuant to 807 KAR 5:001 to the First Information Request issued by the Commission Staff in this matter on September 9, 2005. HWEA's Responses are as follows:

Respectfully submitted,



Carl W. Breeding  
Holland N. McTyeire, V

GREENEBAUM DOLL & MCDONALD PLLC  
229 West Main Street  
Suite 101  
Frankfort, Kentucky 40601-1879  
Telephone: (502) 875-0050  
Facsimile: (502) 875-0850  
E-mail: cwb@gdm.com  
hnm@gdm.com

and

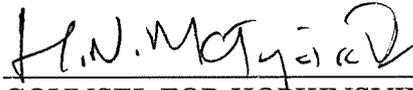
Andrew C. Self

DEATHERAGE, MYERS, SELF & LACKEY  
701 South Main Street  
P.O. Box 1065  
Hopkinsville, Kentucky 42241-1065  
Telephone: (270) 886-6800  
Facsimile: (270) 885-7127  
E-mail: aself@dmsllaw.com

COUNSEL FOR HOPKINSVILLE WATER  
ENVIRONMENT AUTHORITY

**CERTIFICATE OF SERVICE**

I hereby certify that a copy of the Response Of Hopkinsville Water Environment Authority To The Commission Staff's September 9, 2005 First Information Request was served by United States mail, first class, postage prepaid, to John N. Hughes, 124 West Todd Street, Frankfort, Kentucky 40601, counsel for Christian County Water District and James Owen, General Manager, Christian County Water District, 1960 Dawson Springs Road, P.O. Box 7, Hopkinsville, Kentucky 42241-0007 on this 23<sup>rd</sup> day of September , 2005.



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COUNSEL FOR HOPKINSVILLE WATER  
ENVIRONMENT AUTHORITY





Case No.: 2005-00174  
Questions From: Public Service Commission – September 9, 2005  
Response from: Hopkinsville Water Environment Authority  
Sponsoring Witness: Lennis Franklin Hale

**INFORMATION REQUEST NO. 1.**

a. Provide the 1996 Agreement that Mr. Hale refers to at page 7 of his direct testimony.

**RESPONSE:**

A copy of the 1996 Agreement is attached hereto as Exhibit No. 1a.

Item 1. a.



Case No.: 2005-00174  
Questions From: Public Service Commission – September 9, 2005  
Response from: Hopkinsville Water Environment Authority  
Sponsoring Witness: Lennis Franklin Hale

**INFORMATION REQUEST NO. 1.**

b. State whether HWEA has submitted the 1996 Agreement to the Public Service Commission for its approval. If yes, state when HWEA submitted this Agreement, identify the proceeding in which the Agreement was presented, and provide the Commission Order in which the Commission approved the Agreement.

**RESPONSE:**

The 1996 Agreement was not submitted by the Hopkinsville Water Environment Authority (“HWEA”) or the Christian County Water District (the “CCWD”) to the Public Service Commission (the “Commission”) for approval. However, the Commission’s December 17, 2003 Order in Case No. 2003-00087 styled *In the matter of: Investigation of the Hopkinsville Water Environment Authority Wholesale Rate to Christian County Water District* approved the rates contained in the Settlement Agreement attached thereto. That Settlement Agreement stated as follows with regard to the wholesale rates between HWEA and CCWD:

The wholesale water rates that HWEA shall charge the Water District shall be in accordance with the June 19, 1996 Contract Modification Agreement (“1996 Amendment”) between HWEA and the Water District. The 1996 Amendment provides for a 1.3 multiplier times the applicable city rates. In calculating the wholesale rates, HWEA shall include the fourth tier which was deleted by the Hopkinsville City Council on November 21, 2000. Based upon the current city rates, the wholesale rates that HWEA shall charge the Water District are set forth in Schedule 1 which is attached hereto and incorporated herein by reference.

Therefore, although HWEA recognized that the 1996 Agreement between the parties had not been approved by the Commission, it interpreted the December 17, 2003 Order in Case No. 2003-00087 as approving the wholesale rate methodology set forth above.

Item 1. b.





Case No.: 2005-00174  
Questions From: Public Service Commission – September 9, 2005  
Response from: Hopkinsville Water Environment Authority  
Sponsoring Witness: Lennis Franklin Hale

**INFORMATION REQUEST NO. 2.**

Provide the following financial information for the fiscal year ending June 30, 2005

(“Fiscal Year 2005”):

- a. General Ledger.
- b. Trial Balance.
- c. The auditors adjusting journal entries.
- d. Financial Report.

**RESPONSE:**

The requested information is not currently available in audited form. The FY 2005 Audit is scheduled to be conducted in October of 2005. Audited FY 2005 financial information can be provided upon completion.

Item 2. a. through d.





Case No.: 2005-00174  
Questions From: Public Service Commission – September 9, 2005  
Response from: Hopkinsville Water Environment Authority  
Sponsoring Witness: Jennings Rowe McKinley II

**INFORMATION REQUEST NO. 3.**

At page 3 in his Direct Testimony, Jennings Rowe McKinley II, states that HWEA used the 5 years of historical data and the operating budget for the fiscal year ending June 30, 2005 to project revenues and expenses for the 5-year period of fiscal years 2005 through 2009.

a. Provide all workpapers, show all calculations, and state all assumptions that HWEA used to develop its forecasted test-period financial information.

**RESPONSE:**

Attached as Exhibit No. 3a. is a copy of all workpapers and schedules used to develop the cash flow for the FY 2005-2009 Study Period. All assumptions regarding inflation factors, growth factors, and proposed debt issuance parameters are discussed in the *Report on Revenue Requirements, Costs of Service and Rates for Water Service* prepared for HWEA by Black & Veatch (the “B&V Report”).

Item 3. a.



Case No.: 2005-00174  
Questions From: Public Service Commission – September 9, 2005  
Response from: Hopkinsville Water Environment Authority  
Sponsoring Witness: Lennis Franklin Hale

**INFORMATION REQUEST NO. 3.**

At page 3 in his Direct Testimony, Jennings Rowe McKinley III, states that HWEA used the 5 years of historical data and the operating budget for the fiscal year ending June 30, 2005 to project revenues and expenses for the 5-year period of fiscal years 2005 through 2009.

b. Provide all materials, to include all budget instructions, assumptions, directives, manuals, policies and procedures, timelines, and descriptions of budget procedures that HWEA used in the development of its 2005 Fiscal Year Budget.

**RESPONSE:**

Attached as Exhibit No. 3b. is a copy of the HWEA's FY 2005 Budget for the Hopkinsville Water Division. HWEA develops each Annual Budget individually by assessing historical revenues, needs based expenditures and trends observed in the system.

Item 3. b.



Case No.: 2005-00174  
Questions From: Public Service Commission – September 9, 2005  
Response from: Hopkinsville Water Environment Authority  
Sponsoring Witness: Lennis Franklin Hale

**INFORMATION REQUEST NO. 3.**

At page 3 in his Direct Testimony, Jennings Rowe McKinley III, states that HWEA used the 5 years of historical data and the operating budget for the fiscal year ending June 30, 2005 to project revenues and expenses for the 5-year period of fiscal years 2005 through 2009.

c. Provide a comparison of HWEA's monthly operating budgets to the actual results, by account, for fiscal years 2004, and 2005. Include for each yearly account variance that exceeds 5 percent, a detailed explanation for the variance.

**RESPONSE:**

Attached as Exhibit No. 3c. is a copy of the YE Financial Statement, with the associated Budget figures applied. An explanation for each yearly account variance that exceeds 5% is set forth below.

**FY 2004 Water System Financials, Budget v. Actual, Explanation of 5% or Greater Variance**

- i) Water Sales to Industry -7.4%: Several industries cut water consumption to comply with Industrial Standards Organization Standard No. 9601.
- ii) Water Sales to Government Agencies -9.4%: Less revenue was collected from the CCWD than anticipated, the primary customer in this category. HWEA adjusted CCWD revenues on June 30, 2004 based on the KY 272 master meter refund.
- iii) Water Penalties -44%: Customers were more diligent in paying their bills on time, thus avoiding late fees and reconnect fees. Earlier in the year, HWEA had implemented a courtesy call program.
- iv) Water Allowances -46%: HWEA had fewer adjustments to make from water leaks that anticipated.
- v) Source of Supply Expense -108%: Chemicals used to treat the lakes are a major component of this expense. Due to favorable weather conditions, significantly less chemicals were used during FY 2004.

Item 3. c.

Case No.: 2005-00174  
Questions From: Public Service Commission – September 9, 2005  
Response from: Hopkinsville Water Environment Authority  
Sponsoring Witness: Lennis Franklin Hale

- vi) Water Administration and General Expenses -15%: Office salaries were down from the loss of employees, as were employee benefits. HWEA's legal expenses were also less than anticipated.
- vii) Water Other Credits -9.3%: HWEA received less income from investment accounts because of lower interest rates.
- viii) Water Income Charges -17%: HWEA charged off less bad debts than anticipated.

FY 2005 Water System Financials, Budget v. Actual, Explanation of 5% or Greater Variance

- i) Water Industrial Sales +7%: The increase occurred from increased industrial production and the expansion of TGASK and 5 other industries.
- ii) Water Sales to Government Agencies -9%: Sales to the CCWD were down as well as to certain Hopkinsville City accounts.
- iii) Water Penalties - 55%: Customers were more diligent in paying their bills on time, thus avoiding late fees and reconnect fee.
- iv) Water Service Fees -16%: There were fewer housing starts and new construction than anticipated.
- v) Water Allowances -28%: HWEA had fewer adjustments to make from water leaks.
- vi) Source of Supply Expense +96%: After the completion of the FY 2004 Audit, the auditors recommended separate accounting for pump power. In the past, the pump power cost had been accounted for under the Water Treatment Plant.
- vii) Water Treatment Plant +6%: Chemical consumption by the WTP had increased more than expected. Weather conditions greatly affect the water quality of the Little River. Extreme changes in turbidity, iron and manganese greatly affect the amount of chemicals used by the WTP. HWEA also had unexpected repairs to the Filter Room, Filters and HVAC at the Moss WTP.
- viii) Water Administration and General +13%: Insurance premiums for water assets increased significantly after the budget had been prepared. Employee benefits had also increased significantly, primarily in the form of higher Health Insurance and Workers Compensation Insurance premiums.
- ix) Water Technical Service -12%: There was a large part of the engineering labor cost capitalized from work on construction projects.

Item 3. c.

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- x) Other Credits +51%: Contributions by contractors of water infrastructure were higher than anticipated, primarily from a new elementary school, the Conference and Convention Center and Southern States.



Case No.: 2005-00174  
Questions From: Public Service Commission – September 9, 2005  
Response from: Hopkinsville Water Environment Authority  
Sponsoring Witness: Jennings Rowe McKinley II

**INFORMATION REQUEST NO. 4.**

For each outstanding revenue bond issuance related to HWEA's water and sewer divisions, provide the reason(s) for the issuance, the method for allocating the debt between the two divisions, and all supporting documentation for the allocation.

**RESPONSE:**

Series 1993 Bond: The outstanding balance on June 30, 2004 for this Bond was \$1,368,871. This Bond refunded the Series 1976 and 1987 Bonds. All of the costs of this Bond are allocated to the water system, since the Series 1976 and 1987 Bonds were used for water system improvements.

Series 1996 Bond: The outstanding balance on June 30, 2004 for this Bond was \$1,585,000. This Bond was used to fund the construction of the Moss Water Treatment Plant ("WTP") and is entirely allocated to the water system. The Series 1996 Bonds were refunded in the Series 2005B Bonds issued on May 17, 2005.

Series 2002 Bond: The outstanding balance on June 30, 2004 for this Bond was \$3,680,000. This Bond refunded the Series 1975 and 1989 Bonds. \$1,401,828, of the balance is allocated to water and \$2,578,172 is allocated to sewer. The allocated amounts of the balance were determined by York, Neel and Co., HWEA's auditors, who based their decisions on the original Bonds.

Series 2005A Bond: This Bond for \$25,635,000 was issued on May 17, 2005. The purpose of this Bond was to finance construction of Phase 2 of the Lake Barkley Raw Water Project and is 100% allocable to the HWEA water system.

Item 4.

Case No.: 2005-00174  
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Response from: Hopkinsville Water Environment Authority  
Sponsoring Witness: Jennings Rowe McKinley II

A copy of the Indebtedness/Bond Spreadsheet prepared by York, Neel and Company is attached as Exhibit No. 4. The information on the spreadsheet is derived from the FY 2004 Audit.

Item 4.

